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SUBJECT: Green Investment in China's "Backyard Garden":  
Consulate-AmCham Clean Energy Delegation to Hainan

REF: Guangzhou 587

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¶1. (SBU) Summary: Seeking to capitalize on Hainan's stated objectives of boosting clean energy research and development (R&D) and strengthening protection of its natural environment (reftel), Consul General Goldbeck and AmCham South China President Harley Seyedin jointly led a delegation December 16-18 to explore green investment opportunities in the island province. The delegation -- which included representatives from companies specializing in solar power, electrical interconnect systems, legal services, tool-making, transport of oversized cargo, and project investment, among others -- participated in a business matching session attended by at least thirty local green project representatives and carried out site visits to a wind power plant, biogas farm, solar/wind hybrid street lighting system and seed-to-fuel R&D center. Hainan's mid- to long-term development plans, including proposals to make the island an international tourism destination and establish the province as China's first special zone for environmental protection, create favorable conditions for investment and business cooperation. However, the priority of potential local business partners appears to be access to U.S. technologies and to a lesser degree joint research and development. End Summary.

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DELEGATION TAKES ADVANTAGE OF PUSH FOR GREATER COOPERATION  
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¶2. (SBU) During initial meetings with CG Goldbeck in September, provincial government officials and researchers at local think tanks and NGOs pushed for greater scientific and business cooperation with U.S. companies and research institutions on clean energy and environmental protection. Seizing the opportunity, CG Goldbeck reached out to AmCham South China and proposed a joint delegation to further explore green investment opportunities in Hainan. Coordination of the delegation's visit to Hainan was facilitated by the Hainan Renewable Energy Association and its Secretary General, Fan Yimin (reftel).

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DEVELOPMENT PLANS MAY OPEN UP DOOR FOR GREEN INVESTMENT  
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13. (SBU) The Central Government is expected to approve a provincial government proposal to transform Hainan into an international tourism island very soon, according to Yin Zhongyi, Vice President of the China Institute for Reform and Development (CIRD), a think tank formed jointly by the Chinese central and Hainan provincial governments. Realization of this objective, Yin argues, would require Hainan to further develop its service sector and move away from investment in heavy-polluting industries. In addition to business opportunities related to clean energy, the implementation of this proposal has the potential to create investment opportunities for U.S. "green tourism" companies, according to Ye Zhanghe, Deputy Director of the Hainan Development and Reform Commission (DRC). (Note: While discussing the potential impacts of the proposal, Yin mentioned as an aside that plans to build a nuclear reactor in the middle of the island province would likely come into conflict with tourism-related objectives, potentially resulting in the decision to abandon the nuclear reactor construction project. In contrast, local government officials understood plans were proceeding. End Note.)

14. (SBU) Environmental protection is a "prerequisite" for development of the tourism sector in Hainan, Yin told the CG. It was this conviction that spurred CIRD to submit a proposal on the provincial government's behalf in 2001 that Hainan be declared China's first special zone for environmental protection. Although this proposal has not yet been approved, Yin noted that it was very well received at a meeting earlier this year with the Planning Department of the National Development and Reform Commission (NDRC). If and when the proposal is approved, Yin notes the challenge will be translating the principles of environmental protection into concrete actions that can be evaluated by measurable indicators.

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GDP GROWTH - THE WRONG METRIC FOR HAINAN  
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15. (SBU) However, Yin told the CG that so long as the provincial government is evaluated using GDP metrics, it will be difficult for officials to justify higher levels of investment in clean energy and environmental protection. Despite Chinese Premier Wen Jiabao's directive that the Hainan provincial government's first responsibility is to preserve its natural environment, Yin believes officials will be unwilling to make the investments necessary to convert the province into China's "backyard garden" unless their performance is measured by indicators other than GDP growth, e.g. carbon intensity per unit of GDP production or clean energy as a percentage of total energy.

16. (SBU) Yin advocated direct compensation from the Central Government for the economic growth potential that would be sacrificed by the shift to more expensive clean energies and increased investments in environmental protection. He also emphasized the need for pricing reforms that would ensure energy prices reflect scarcity and environmental costs. Yin believes this type of reform would be instrumental in creating economic incentives for investment in clean energy.

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CLEAN ENERGY PROJECTS SEEK INVESTMENT BUT PREFER TECHNOLOGY  
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17. (SBU) In September, Hainan Vice Governor Li Guoliang told the CG that Hainan hopes to follow Hawaii's example and become a demonstration site for clean energy technologies in China. The province's commitment to clean energy development is substantiated by a large number of ongoing clean energy R&D projects, which range from wind and solar to biogas, geothermal, and seed-to-fuel. At least 30 representatives from these and other projects attended the business matching session on the first day of the U.S. delegation's visit. This session was followed up by tours of four project sites: 1) a wind power plant with total installed capacity of 49.5 megawatts (MW); 2) a biogas project that converts pig manure into biogas and fertilizer, providing electricity and heat for 146 homes

in Luoniushan Village; 3) a solar/wind hybrid street lighting system that covers seven kilometers with 582 posts that generate 223 kilowatts (KW) of electricity; and 4) a jatropha curcas seed-to-fuel R&D center focused on improving yields of jatropha seeds for use in production of jet fuels.

18. (SBU) One theme that emerged from the business matching session and site visits is that companies engaged in clean energy R&D in Hainan are not just looking for project investment. Instead, representatives from several projects, including the wind power and seed-to-fuel projects mentioned above, are seeking research and business cooperation that will result in the joint development and/or sharing of technologies to improve project efficiency. In an illustrative moment during the visit to the wind power plant, the head of the company said in response to a GE representative's expression of interest in working with the company: "I am not sure GE is really interested in working together; I think GE's only interest is selling turbines." The head of the company, which already receives support under the Clean Development Mechanism, made further comments that echoed the Chinese government's talking points on the responsibility of developed countries to transfer clean energy technology to developing countries.

19. (SBU) Comment: As Hainan seeks to further develop its tourism sector and implement measures to strengthen protection of the island's natural environment, business opportunities related to clean energy and green tourism may become increasingly available. While provincial leaders appear to be supportive of investment and business cooperation, approval for large-scale investment in specific clean energy R&D projects is not guaranteed. Potential business partners in Hainan seem more interested in access to U.S. technologies than any other form of cooperation, which may present an obstacle to cooperation, especially given China's environment for the protection of intellectual property. Reps from participating AmCham firms said they appreciated making new contacts and that they

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found a few interesting prospects, but they were skeptical about opportunities to engage in larger, longer-term projects. End Comment.

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